

EXHIBIT II

LIQUIDATION ANALYSIS¹

Section 1129(a)(7) of the Bankruptcy Code (often called the "Best Interests Test"), requires that each holder of an impaired Claim or Interest either (a) accept the Plan, or (b) receive or retain under the Plan property of a value, as of the Plan's Effective Date, that is not less than the value such non-accepting holder would receive or retain if the Debtors were to be liquidated under ~~Chapter~~chapter 7 of the Bankruptcy Code on the assumed date of conversion to a ~~Chapter~~chapter 7 (the "Conversion Date"). In determining whether the Best Interests Test has been met, the first step is to determine the dollar amount that would be generated from a hypothetical liquidation of the Debtors' assets in ~~Chapter~~chapter 7. The gross amount of cash available would be the sum of the proceeds from the disposition of the Debtors' assets and the cash held by the Debtors at the commencement of its ~~Chapter~~chapter 7 case. Such amount is reduced by the amount of any Claims secured by such assets, the costs and expenses of the liquidation, and such additional administrative expenses and priority claims that may result from the use of ~~Chapter~~chapter 7 for purposes of liquidation. Any remaining net cash would be allocated to creditors and shareholders in strict priority in accordance with Section 726 of the Bankruptcy Code.

A general summary of the assumptions used in preparing the liquidation analysis follows.

THERE CAN BE NO ASSURANCE THAT THE VALUES REFLECTED IN THE LIQUIDATION ANALYSIS WOULD BE REALIZED IF THE DEBTORS WERE, IN FACT, TO UNDERGO SUCH A LIQUIDATION, AND ACTUAL RESULTS COULD VARY MATERIALLY FROM THOSE SHOWN HEREIN.

Analysis Methodology

Hypothetical recoveries to stakeholders of the Debtors in a liquidation were determined through multiple steps, as set forth below. In some cases KACOCL is considered separately rather than as part of KaiserKAC and the remaining Debtors (the Debtors, excluding KACOCL, the "Kaiser Debtor Entities").

- The Debtors, with guidance from Lazard regarding the mechanics of a ~~Chapter~~chapter 7 liquidation, estimated proceeds from the liquidation of each of the Debtors' assets. This includes assets of both the Kaiser Debtor Entities as well as KACOCL.
- Gross cash was reduced by estimated liquidation costs. These include estimated operating costs during the liquidation process, as well as trustee fees and professional fees.
- The letters of credit outstanding under the DIP Financing Facility (estimated at \$18 million) were assumed to be drawn, and the lenders party to the DIP Financing Facility were assumed to receive a superpriority administrative claim against KACC. No other amounts were assumed to be outstanding under the DIP Financing Facility.
- Recoveries occur at each entity on an absolute priority basis according to the claims outstanding at that entity. No marshalling of claims asserted against multiple entities is assumed.

Estimate of Net Proceeds

Estimates were made of the cash proceeds that might be realized from the liquidation of the Debtors' assets. The Liquidation Analysis also assumes that the sale of the assets of the Debtors would occur under the direction of a Bankruptcy Court-appointed Chapterchapter 7 trustee. For certain assets, estimates of the

¹ All capitalized terms in this Exhibit II not otherwise defined herein have the meanings given to them in the Joint Plan of Reorganization of Kaiser Aluminum Corporation, Kaiser Aluminum & Chemical Corporation and Certain of Their Debtor Affiliates, as the same may be amended, modified or supplemented, or the Disclosure Statement pursuant to Section 1125 of the Bankruptcy Code for such plan of reorganization, as the case may be.

liquidation proceeds were made for each asset individually. For other assets, liquidation values were assessed for general classes of assets by estimating the percentage recoveries that a ~~Chapter~~chapter 7 trustee might achieve through their disposition. The liquidation period (estimated to be six to twelve months) would allow for an expedited sales process and the documentation and closing of such sale transactions.

This Liquidation Analysis does not reflect any recoveries that might be realized by the ~~Chapter~~chapter 7 trustee's pursuit of any avoidance actions, as the Debtors believe that any such recoveries are highly speculative in light of, among other things, the various defenses that would likely be asserted. Accordingly, the Liquidation Analysis has valued any such recoveries at zero, including those attributable to the ~~Chapter~~chapter 7 trustee's pursuit of ~~Preference Rights~~Recovery Actions. To the extent that any recoveries are obtained, the Debtors do not believe that such recoveries would materially alter the distributions to unsecured creditors.

Estimate of Costs

The Debtors' liquidation costs under ~~Chapter~~chapter 7 would include the fees payable to a ~~Chapter~~chapter 7 trustee, as well as those that might be payable to attorneys and other professionals that such a trustee may engage. In accordance with the priority of payments provided for in the Bankruptcy Code, once these costs of liquidation were satisfied, payments would include any obligations and unpaid expenses incurred by the Debtors during the ~~Chapter 11 case~~Reorganization Case and allowed in the ~~Chapter~~chapter 7 case, such as compensation for attorneys, financial advisers, appraisers, accountants and other professionals, and costs and expenses of members of any statutory committee of unsecured creditors appointed pursuant to section 1102 of the Bankruptcy Code and any other committee so appointed, as well as post-petition contract, lease, and other operating obligations. Moreover, additional claims could arise by reason of the breach or rejection of obligations incurred and executory contracts or leases entered into by the Debtors both prior to and during the pendency of the ~~Chapter 11 case~~Reorganization Case.

Distribution of Net Proceeds under Absolute Priority

Under the absolute priority rule, no junior creditor would receive any distribution until all senior creditors are paid in full, and no equityholder would receive any distribution until all creditors are paid in full.

After consideration of the effects that a ~~Chapter~~chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in a ~~Chapter~~chapter 11 case, including (i) the increased costs and expenses of a liquidation under ~~Chapter~~chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, (ii) the erosion in value of assets in a ~~Chapter~~chapter 7 case in the context of the expeditious liquidation required under ~~Chapter~~chapter 7 and the "forced sale" atmosphere that would prevail, and (iii) substantial increases in claims which are likely to arise in a liquidation, the Debtors have determined, as summarized on the charts below, that Confirmation of the Plan will provide each creditor and equity holder with a recovery that is not less than it would receive pursuant to a liquidation of the Debtors under ~~Chapter~~chapter 7 of the Bankruptcy Code.

The Liquidation Analysis was prepared by management with the assistance of Lazard, based on, among other things, the Debtors' preliminary unaudited balance sheets as of May 31, 2005. The Liquidation Analysis assumes that the unaudited May 31, 2005, 2005 balance sheets, on which the analysis is based, are a proxy for the balance sheets that would exist upon the Conversion Date. Certain key assumptions underlying the Liquidation Analysis are listed in the footnotes immediately following each hypothetical liquidation analysis chart.

THE DEBTORS' LIQUIDATION ANALYSIS IS AN ESTIMATE OF THE PROCEEDS THAT MAY BE GENERATED AS A RESULT OF A HYPOTHETICAL CHAPTER 7 LIQUIDATION OF THE ASSETS OF THE DEBTORS. IT IS ASSUMED THAT THE COSTS ASSOCIATED WITH ANY LIQUIDATION PROCESS FOR THE CANADIAN ASSETS OF KACOCL WOULD BE SIMILAR TO THOSE ESTIMATED FOR A CHAPTER 7 LIQUIDATION. NO ADDITIONAL PROVISION HAS BEEN MADE FOR SUCH COSTS.

Underlying the liquidation are a number of estimates and assumptions that are inherently subject to significant economic, competitive and operational uncertainties and contingencies beyond the control of the Debtors or a Chapter 7 trustee. Additionally, various liquidation decisions upon which certain assumptions are based are subject to change. Therefore, there can be no assurance that the assumptions and estimates employed in determining the liquidation values of the Debtors' assets will result in an accurate estimate of the proceeds that would be realized were the Debtors to undergo an actual liquidation. The actual amounts of claims against the Debtors could vary significantly from the Debtors' estimates, depending on the claims asserted during the pendency of the Chapter 7 case. This Liquidation Analysis does not include liabilities that may arise as a result of litigation, additional claims by environmental agencies, certain new tax assessments, or other potential claims. Therefore, the actual liquidation value of the Debtors could vary materially from the estimates provided herein.

A. Estimated Asset Recoveries (\$ in millions).

Hypothetical Liquidation Analysis -- Karse Aluminum & Chemical of Canada Limited					
Estimated Liquidation Proceeds					
	Book Value (a)	Hypothetical Liquidation Value Range			
		Recovery %		Amount	
		Low	High	Low	High
Cash and Equivalents (b)	\$1.2	100.0%	100.0%	\$1.2	\$1.2
Trade Accounts Receivable (c)	2.3	78.5%	88.5%	1.8	2.1
Other Accounts Receivable (d)	0.4	40.0%	70.0%	0.2	0.3
Inventory (e)	3.1	96.1%	119.9%	3.0	3.7
Other Current Assets (f)	0.2	29.0%	47.7%	0.1	0.1
PP&E (g)	28.4	9.1%	19.8%	2.6	5.6
Intercompany Receivable (h)	4.2	0.0%	0.0%	0.0	0.0
Investments (i)	0.0	0.0%	0.0%	0.0	0.0
Other Long-Term Assets (j)	0.0	0.0%	10.0%	0.0	0.0
Total Liquidation Proceeds	\$39.8	22.1%	32.6%	\$8.8	\$13.0
Distribution of Liquidation Proceeds					
Liquidation Fees and Expenses (k)					
Chapter 7 Trustee Fees		3.0%	3.0%	(\$0.3)	(\$0.4)
Chapter 7 Professional Fees		0.7%	0.7%	(0.1)	(0.1)
Mechanics/Workmen's Liens and Other Secured Claims				0.0	0.0
Operating Expenses				(0.5)	(0.4)
Total Fees and Expenses				(\$0.9)	(\$0.9)
Net Estimated Proceeds Available for Distribution to Stakeholders				\$7.9	\$12.1

Hypothetical Liquidation Analysis -- Kaiser Consolidated (excluding KACOCL)**Estimated Liquidation Proceeds**

	Book Value (a)	Hypothetical Liquidation Value Range			
		Recovery %		Amount	
		Low	High	Low	High
Cash and Equivalents (b)	\$62.0	100.0%	100.0%	\$62.0	\$62.0
Trade Accounts Receivable (c)	90.7	77.3%	88.6%	70.2	80.4
Other Accounts Receivable (d)	11.6	59.7%	82.3%	6.9	9.5
Inventory (e)	114.3	70.4%	89.8%	80.5	102.7
Other Current Assets (f)	13.0	62.4%	74.9%	8.1	9.8
PP&E (g)	521.0	8.6%	18.5%	45.0	96.4
Intercompany Receivable (h)	8.7	0.0%	0.0%	0.0	0.0
Investments (i)	62.0	16.1%	32.3%	10.0	20.0
Other Long-Term Assets (j)	1,016.1	0.7%	0.9%	7.3	8.9
Total Liquidation Proceeds	\$1,899.5	15.3%	20.5%	\$290.0	\$389.7

Distribution of Liquidation Proceeds

Liquidation Fees and Expenses (k)		
Chapter 7 Trustee Fees	(\$8.7)	(\$11.7)
Chapter 7 Professional Fees	(2.0)	(2.7)
Mechanics/Workmen's Liens and Other Secured Claims	0.0	0.0
Operating Expenses	(17.0)	(12.1)
Total Fees and Expenses	(\$27.7)	(\$26.5)
Net Estimated Proceeds Available for Distribution to Stakeholders	\$262.3	\$363.2

B. Estimated Distributions of Proceeds (\$ in millions).**Hypothetical Liquidation Analysis -- Kaiser Aluminum & Chemical of Canada Limited**

Net Estimated Proceeds Available for Distribution to Stakeholders	\$7.9	\$12.1
DIP/Letter of Credit Balance (l)	\$0.0	\$0.0
<i>Recovery Amount</i>	NM	NM
<i>% of Claim</i>	NM	NM
Proceeds Available for Payment of Prepetition Secured Claims	\$7.9	\$12.1
Secured Claims (m)	\$0.0	\$0.0
<i>Recovery Amount</i>	NM	NM
<i>% of Claim</i>	NM	NM
Proceeds Available for Payment of Administrative and Priority Claims and Retiree Medical and Unsecured Claims	\$7.9	\$12.1
Administrative and Priority Claims (n)	\$9.7	\$9.7
<i>Recovery Amount</i>	7.9	9.7
<i>% of Claim</i>	82.0%	100.0%
Proceeds Available for Payment of Unsecured Claims	\$0.0	\$2.4
Unsecured Claims (o)	\$616.0	\$616.0
<i>Recovery Amount</i>	0.0	2.4
<i>% of Claim</i>	0.0%	0.4%
Proceeds Available for Payment of Equity Interests	\$0.0	\$0.0

Hypothetical Liquidation Analysis -- Kaiser Consolidated (excluding KACOCL)

Net Estimated Proceeds Available for Distribution to Stakeholders	\$262.3	\$363.2
DIP/Letter of Credit Balance (l)	\$18.0	\$18.0
<i>Recovery Amount</i>	18.0	18.0
<i>% of Claim</i>	100.0%	100.0%
Proceeds Available for Payment of Prepetition Secured Claims	\$244.3	\$345.2
Secured Claims (m)	\$4.9	\$4.9
<i>Recovery Amount</i>	4.9	4.9
<i>% of Claim</i>	100.0%	100.0%
Proceeds Available for Payment of Administrative and Priority Claims and Retiree Medical and Unsecured Claims	\$239.5	\$340.3
Administrative and Priority Claims (n)	\$366.8	\$366.8
<i>Recovery Amount</i>	239.5	340.3
<i>% of Claim</i>	65.3%	92.8%
Proceeds Available for Payment of Unsecured Claims	\$0.0	\$0.0
Unsecured Claims (o)	\$4,577.8	\$4,577.8
<i>Recovery Amount</i>	0.0	0.0
<i>% of Claim</i>	0.0%	0.0%
Proceeds Available for Payment of Equity Interests	\$0.0	\$0.0

C. Recovery Summary (\$ in millions).

Recovery Summary					
Amount	Amount	Recovery		Recovery %	
		Low	High	Low	High
DIP/Letter of Credit Claims	\$18.0	\$18.0	\$18.0	100.0%	100.0%
Secured Claims	4.9	4.9	4.9	100.0%	100.0%
Administrative & Priority Claims	376.5	247.4	350.0	65.7%	93.0%
<u>Unsecured Claims:</u>					
PBGC	616.0	0.0	2.4	0.0%	0.4%
Other Unsecured Claims	3,961.8	0.0	0.0	0.0%	0.0%
Equity Claims	NA	0.0	0.0	NM	NM

FOOTNOTES TO LIQUIDATION ANALYSIS

A summary of the assumptions used in preparing the Liquidation Analysis is set forth below.

Note A – Book Values as of May 31, 2005

Unless otherwise stated, the book values used in this Liquidation Analysis are the preliminary unaudited book values as of May 31, 2005, and are assumed to be representative of the Debtors' assets and liabilities as of the assumed Conversion Date. The book values stated correspond to the book values of the Debtors only, and do not reflect their consolidated book values, *i.e.*, those including the Debtors' non-debtor subsidiaries.

Note B – Cash and Cash Equivalents

Cash consists of all cash in banks or operating accounts and liquid investments with maturities of three months or less. Cash is assumed to be fully recoverable. All Cash is assumed to be collateral of the DIP Financing Facility as per the Cash Collateral Orders, order of the Bankruptcy Court approving the DIP Financing Facility entered on February 11, 2005.

Note C – Trade Accounts Receivable

For the Kaiser Debtor Entities, accounts receivable reflect a recovery rate, which varies by entity, of approximately 80% to 90% for receivables outstanding for 0-30 days, 75% to 85% for receivables outstanding for 31-60 days, 40% to 50% for receivables outstanding for 61-90 days, and 0% for receivables outstanding for over 91 days. Estimated collections are reduced by 20% to 30% of allowances for doubtful accounts.

For KACOCL, accounts receivable reflect a recovery rate of 80% to 90% for receivables outstanding for 0-30 days, 75% to 85% for receivables outstanding for 31-60 days, 40% to 50% for receivables outstanding for 61-90 days, and 0% for receivables outstanding for over 91 days. Estimated collections are reduced by 20% to 30% of allowances for doubtful accounts.

Note D – Other Accounts Receivable

Other accounts receivable for the Kaiser Debtor Entities reflect miscellaneous receivables and vary by entity, with most entities reflecting recoveries of approximately 40% to 70%; other receivables related to Anglesey are assumed to experience recoveries of 80% to 95%.

Note E – Inventory

For the Kaiser Debtor Entities, estimated inventory recoveries vary by entity and reflect the following recovery ranges: raw materials (80% to 100%); work in process (65% to 85%), finished goods (80% to 115%); and other (0% to 10%).

For KACOCL, inventory reflects the following recovery rates: raw materials (80% to 100%); work in process (85% to 105%); finished goods (95% to 115%); and other (0% to 10%).

Note F – Other Current Assets

Other current assets include restricted cash, fair value of hedging contracts, deferred tax assets, and other assets. For the Kaiser Debtor Entities, other current assets reflect a recovery rate of approximately 75% to 85% at KACC and 0% to 25% at other entities. For KACOCL, other current assets reflect a recovery rate of approximately 35% to 55%.

Note G – Plant, Property and Equipment

Property, Plant, and Equipment includes land, buildings, improvements, furniture, fixtures, machinery, and other fixed assets. For the Kaiser Debtor Entities, recoveries of net property, plant, and equipment, which vary by entity, range as follows: land and land improvements (80% to 180%); buildings and leasehold improvements (0% to 20%); machinery and equipment (8% to 15%); and other (0% to 20%). For KACOCL, recoveries of net property, plant, and equipment, range as follows: land and land improvements (75% to 100%); buildings and leasehold improvements (0% to 20%); machinery and equipment (10% to 15%); and other (0% to 20%).

Note H – Intercompany Receivable

Intercompany claims are assumed to be cancelled, and no value is assumed to flow from them. Note that an intercompany payable to KFC is assumed to be asserted against the Kaiser Debtor Entities and included as a general unsecured claim.

Note I – Investments

Investments reflect the Debtors' investment in the Anglesey aluminum smelter, which is assumed to be sold at a discount to the going concern value.

Note J – Other Long-Term Assets

Other long-term assets include long-term restricted cash, fair value of long-term hedging contracts, goodwill and other intangible assets, deferred tax assets, insurance assets, and other assets. Estimated recoveries at the Kaiser Debtor Entities range from approximately 0% to 1% at KACC to 0% to 10% at other entities. Estimated recoveries at KACOCL range from 0% to 10%.

Note K – Liquidation Fees and Expenses

Chapter 7 trustee fees are estimated to be 3.0% of gross sale proceeds, and professional fees are estimated to be 0.7% of gross sale proceeds. Aggregate ~~Operating Expenses~~ operating expenses are assumed to be \$12.5 million to \$17.5 million. These costs would include maintenance, security, and utility costs during the liquidation period, salaries of financial and operating employees, severance pay, stay bonuses, and other related costs that would be incurred during a ~~Chapter~~ chapter 7 liquidation. Operating expenses are estimated to be allocated between the Kaiser Debtor Entities and KACOCL based on the average assets recoveries at each. Note that Canadian liquidation expenses are assumed to be similar to those incurred in the United States, although these amounts may differ due to different statutory requirements.

Note L – DIP Lender Claims

The analysis assumes a DIP Financing Facility loan balance of \$18 million. Upon commencement of a liquidation, holders of approximately \$18 million of letters of credit secured by the DIP Financing Facility are assumed to draw on those letters of credit. As a result, the DIP ~~Financing Facility~~ Lenders, by virtue of their superpriority status, are assumed to have a first priority claim on the Kaiser Debtor Entity assets. This claim is

assumed to recover in full before all other claims at the Kaiser Debtor Entities but not to be asserted against KACOCL.

Note M – Secured Claims

Secured Claims at the Kaiser Debtor Entities are assumed to total \$5 million, reflecting the principal balance as well as accrued interest on certain capital leases, in addition to mechanics and workmens' liens. KACOCL is assumed to have no secured claims.

Note N – Administrative and Priority Claims

These claims include the adjusted value of post-petition trade payables and accrued and other liabilities as of May 31, 2005. In addition, certain adjustments have been made to administrative claims to reflect anticipated post-petition contract rejections and other claims that would arise if the cases were converted to Chapter 7. Administrative claims and priority claims are entitled to recover to the extent of any unencumbered proceeds before unsecured claims.

Note O – Unsecured Claims

These claims reflect the estimated amounts of prepetition liabilities. For the Kaiser Debtor Entities, these amounts include claims for prepetition unsecured debt, trade payables, contract rejections, unfair labor practices, torts, retiree medical and pension obligations, environmental obligations, and an intercompany claim held by KFC. Certain of these claims are not compromised under the plan but are assumed to be in a liquidation. For KACOCL, unsecured claims are limited to pension claims. Unsecured claims must recover in full before equity interests.